

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08

NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03

CIAE-00 DODE-00 INR-07 NSAE-00 PA-02 PRS-01

COME-00 FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 2915

INFO AMEMBASSY CANBERRA

USMISSION OECD PARIS

UNCLAS WELLINGTON 1096

E. O. 11652: N/A

TAGS: ECON

SUBJECT: PREDICTIONS OF ECONOMIC SLO DOWN IN 1977-78

1. THE LATEST QUARTERLY PREDICTIONS OF THE
N.Z. ECONOMIC INSTITUTE OF ECONOMIC RESEARCH SAYS
THAT ECONOMIC ACTIVITY HAS FALLEN SLOWER THAN EXPECTED
UP TO PRESENT. (GNP IS ESTIMATED TO HAVE RISEN 15
PERCENT AT CURRENT PRICES FOR THE MARCH 1977
YEAR.) THIS HAS MEANT THE CURRENT ACCOUNT DEFICIT
HAS REMAINED VERY HIGH FOR THE THIRD STRAIGHT YEAR
AND WILL CONTINUE IN 1977 AS WELL, REACHING \$890
MILLION IN THE MARCH 1978 YEAR. SOME ADJUSTMENT IS
EVIDENT. REAL DOMESTIC OUTLAY IS ESTIMATED TO HAVE
FALLEN THREE-AND-ONE-HALF PERCENT DURING THE YEAR
ENDING MARCH 1977. THE VOLUME OF IMPORTS IS ESTIM-
ATED TO HAVE FALLEN ABOUT THE SAME AMOUNT.

2. WAGE AND SALARY INCREASES FOR THE MARCH 1977 YEAR
ARE ESTIMATED AT 13 1/2 PERCENT. THIS FACT AND
CREDIT AVAILABILITY HAVE CONTRIBUTED TO SLOWING
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THE DOWNWARD ADJUSTMENT IN DEMAND. ALSO THE
RURAL SECTOR HAS BEEN BUOYAND. FARMING INCOME
IS ESTIMATED TO HAVE RISEN 29 PERCENT IN THE
MARCH 1977 YEAR. THE ANTICIPATION OF CONTINUED
INFLATION HAS ALSO CONTRIBUTED TO PUBLIC DIS-
INCLINATION TO REDUCE SPENDING EVEN THOUGH REAL
INCOMES HAVE FALLEN.

3. THE BALANCE OF PAYMENTS DEFICIT FOR THE MARCH 1977 YEAR IS ESTIMATED AT \$800 MILLION (NZ\$1 EQUALS ABOUT US\$0.95) THOUGH EXPORT EARNINGS INCREASED NEARLY 50 PERCENT. IMPORT PRICE INCREASES ARE THE MAJOR ELEMENT IN THE CONTINUED HIGH IMPORT PAYMENTS. EXPECTATION OF FURTHER IMPORT PRICE INCREASES ALSO MAY HAVE BEEN RESPONSIBLE FOR LIMITING THE FALL IN IMPORT VOLUME.

4. HIGH EXPORT PRICES AND VOLUME BOOSTED EXPORT RECEIPTS. INCREASED MANUFACTURED AND AGRICULTURAL PRODUCTION (PARTLY DUE TO FAVOURABLE CLIMATIC CONDITIONS), INCLUDING GREATER SLAUGHTERING AND SOME STOCKING, WERE RESPONSIBLE FOR HIGH EXPORT VOLUME. THIS IS NOT EXPECTED TO CONTINUE IN 1977, THOUGH THE OUTLOOK FOR MANUFACTURED EXPORTS IS SOMEWHAT BRIGHTER.

5. THERE ARE SIGNS ECONOMIC ACTIVITY IS WEAKENING. THE BUSINESS MODD IS MORE PESSIMISTIC. GOVERNMENT CAN BE EXPECTED TO REDUCE REAL SPENDING FURTHER BUT INFLATION WILL LIMIT THIS.

6. RECENT EXPERIENCE REVEALS PROBLEMS OF RESTRAINING WAGE INCREASES DURING INFLATION. THIS PROBLEM WILL CONTINUE IN 1977. TIGHTER MONETARY LIQUIDITY IN 1977 MAY HALP SPEED A FALL IN DEMAND AND OUTPUT.
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7. PREDICTION OF CHANGES IN IMPORT AND EXPORT PRICES IS VERY DIFFICULT. INSTITUTE ASSUMES A 10 PERCENT EXPORT PRICE INCREASE AND A 12 PERCENT INCREASE IN IMPORT PRICES (VS 26 AND 22 1/2 PERCENT FOR MARCH 1977 YEAR)
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Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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